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ENAMEL & HEATING PRODUCTS LIMITED

**ANNUAL
REPORT**
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Board of Directors

M. BOURGET
J. N. COLE
S. R. DONALDSON
D. R. DOWNING
K. DINHAM
J. E. MURPHY
P. WARREN
J. P. WARREN

Officers

PIERRE WARREN
President
D. R. DOWNING
Vice President & General Manager
D. J. CHIPMAN
Secretary-Treasurer & Comptroller
JOHN HOLLOWAY
Assistant Treasurer
GEORGE CHAMBERS
Manager - Appliance Division
S. R. DONALDSON
Manager - Steel & Aircraft Divisions
L. A. WILSON
Manager - Eastern Sales Division
KEN DINHAM
Manager - Western Sales Division

Auditors

Touche, Ross & Company

Transfer Agents

*Montreal Trust Company, Montreal, Que.
The Central Trust Co. of Canada,
Moncton, N. B., Amherst, N. S.*

Registrars

*Canadian Trust Company, Montreal, Que.
The Central Trust Co. of Canada,
Moncton, N. B., Amherst, N. S.*

ANNUAL REPORT 1972

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1972



**ENAMEL & HEATING PRODUCTS, LIMITED
AND SUBSIDIARY COMPANIES**

ENAMEL & HEATING PRODUCTS, LIMITED

and Subsidiary Companies

To the Shareholders

Your Directors are pleased to present the Company's Consolidated Financial Statements for the year ended December 31, 1972, together with the Auditors' Report thereon.

SALES AND PROFIT

The Net Consolidated income for the year 1972 was \$106,431. Total sales were \$11,738,563 — up \$660,547.00 over 1971. Capital expenditures for 1972 were \$144,247.

OUTLOOK FOR 1973

The outlook in the Aircraft Division for 1973 is excellent. The Company recently negotiated a contract with Boeing Aircraft Company for approximately \$1,500,000 for the supply of aircraft components. This together with contracts for Federal Department of Supply and Services, and continuing contracts with Douglas Aircraft Company for the supply of DC10 components will result in a healthy work load in this Division for 1973.

The Company anticipates a good year in the Appliance Division with a projected sales increase of 25%. The demand for appliances continues to be excellent.

The demand for steel in 1973 will be very strong. At the present time there is a general shortage of semi-finished and finished steel products throughout most countries in the world.

In order to improve production in the Steel Division it was necessary to reduce operations during January and February, 1972, for the installation of new equipment. This resulted in reduced production for the year 1972, and a slow down in the operations of the Melt Shop in order to keep the ingot inventory in line with the production requirements. These new improvements in the rolling however have already resulted in improved production costs in 1973.

The Company has engaged the services of highly qualified and experienced consulting engineers to further improve the operations of the Steel Division.

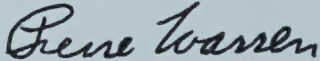
Phase I of the proposals by the consultants is now complete and the program will go forward in 1973. The Company has received the approval of a Capital Assistance Grant from the Department of Regional Economic Expansion to assist with these expenditures.

Airco Products Limited, Vancouver, B. C., our wholly owned subsidiary Company has had an excellent year in 1972 and contributed significantly to the profits of the Company. Their outlook continues strong with a good year forecast for 1973.

EMPLOYEES

The Directors join me in appreciation to all the customers, suppliers, employees and shareholders of the Company for their continued confidence and support.

Approved on behalf of the Board of Directors,


Pierre Warren - President

Sackville, N. B.
March 29, 1973.

Auditors' Report

To the Shareholders,
Enamel & Heating Products, Limited

We have examined the consolidated balance sheet of Enamel & Heating Products, Limited and its subsidiary companies as at December 31, 1972, and the consolidated statements of surplus, income and source and application of funds for the year then ended. Our examination included a general review of accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE ROSS & CO.
Chartered Accountants.

Saint John, N. B.
March 20, 1973.

ENAMEL & HEATING PRODUCTS, LIMITED

AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet as at December 31, 1972

ASSETS

CURRENT	<u>1972</u>	<u>1971</u>
Accounts receivable — NOTE 2	\$2,492,571	\$1,768,090
Inventories — valued at the lower of cost and net realizable value — NOTE 3	3,114,658	2,908,318
Income taxes recoverable	—	6,181
Prepaid expenses	16,787	18,749
	<u>5,624,016</u>	<u>4,701,338</u>

FIXED — NOTE 4

Land, buildings, machinery and equipment	6,768,816	6,649,095
Less accumulated depreciation	2,737,962	2,593,170
	<u>4,030,854</u>	<u>4,055,925</u>

DEFERRED OPERATING COSTS	32,654	57,140
	<u>\$9,687,524</u>	<u>\$8,814,403</u>

On behalf of the Board:

Pierre Warren, *Director*.

D. R. Downing, *Director*.

LIABILITIES

CURRENT	<u>1972</u>	<u>1971</u>
Bank indebtedness — secured	\$2,460,682	\$1,897,660
Accounts payable	1,278,385	975,415
Income taxes payable	38,801	14,888
Current portion of long-term debt	104,582	77,226
	<u>3,882,450</u>	<u>2,965,189</u>
LONG-TERM DEBT — NOTE 5	1,566,158	1,672,596
	<u>5,448,608</u>	<u>4,637,785</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK		
Authorized		
Class A — 250,000 shares without par value		
Class B — 250,000 shares without par value		
Issued and fully paid		
Class A — 177,000 shares	809,885	809,885
Class B — 118,000 shares	219,884	219,884
	<u>1,029,769</u>	<u>1,029,769</u>
SURPLUS		
Contributed	80,052	79,977
Retained earnings	965,468	903,245
	<u>1,045,520</u>	<u>983,222</u>
EXCESS OF APPRAISAL VALUE OF FIXED ASSETS OVER DEPRECIATED COST — NOTE 4		
	<u>2,163,627</u>	<u>2,163,627</u>
	<u>4,238,916</u>	<u>4,176,618</u>
	<u>\$9,687,524</u>	<u>\$8,814,403</u>

ENAMEL & HEATING PRODUCTS, LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1972

CONTRIBUTED	<u>1972</u>	<u>1971</u>
Balance at beginning of year	\$79,977	\$70,477
Incentive grants	75	9,500
Balance at end of year	<u>\$80,052</u>	<u>\$79,977</u>
RETAINED EARNINGS		
Balance at beginning of year	\$ 903,245	\$325,189
Income for the year	106,431	578,056
	<u>1,009,676</u>	<u>903,245</u>
Dividends on Class A shares	44,208	—
Balance at end of year	<u>\$ 965,468</u>	<u>\$903,245</u>

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1972

	<u>1972</u>	<u>1971</u>
Sales	\$11,738,563	\$11,078,016
Operating costs	11,481,168	10,381,914
Interest on long-term debt	96,909	102,885
	<u>11,578,077</u>	<u>10,484,799</u>
Income before income taxes	160,486	593,217
Income taxes	54,055	15,161
Income for the year	<u>\$ 106,431</u>	<u>\$ 578,056</u>
Earnings per Class A share	<u>\$.56</u>	<u>\$2.16</u>
Earnings per Class B share	<u>\$.06</u>	<u>\$1.66</u>

ENAMEL & HEATING PRODUCTS, LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED DECEMBER 31, 1972

SOURCE OF FUNDS	<u>1972</u>	<u>1971</u>
Operations		
Net income for the year	\$ 106,431	\$ 578,056
Add: items not requiring an outlay of funds		
Depreciation	157,662	154,735
Amortization of deferred operating costs	47,095	51,458
(Gain) loss on disposal of fixed assets	(756)	466
	<u>310,432</u>	<u>784,715</u>
Disposal of fixed assets	12,728	8,824
Government incentive grants	75	9,500
	<u>323,235</u>	<u>803,039</u>
Working capital - beginning of year	1,736,149	1,136,011
Working capital - end of year	1,741,566	1,736,149
Increase in working capital	<u>5,417</u>	<u>600,138</u>
	<u><u>\$ 317,818</u></u>	<u><u>\$ 202,901</u></u>
APPLICATION OF FUNDS		
Dividends on Class A shares	\$ 44,208	—
Retirement of long-term debt	106,438	\$ 116,582
Increase in cost deferred	22,925	38,881
Additions to buildings and equipment	144,247	47,438
	<u><u>\$ 317,818</u></u>	<u><u>\$ 202,901</u></u>

ENAMEL & HEATING PRODUCTS, LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1972

1. *Principles of consolidation*

The consolidated financial statements include the accounts of the Company and those of its wholly owned subsidiaries, Mitchell Manufacturing Ltd. and Airco Products Ltd.

2. *Accounts receivable*

	<u>1972</u>	<u>1971</u>
Trade	\$2,492,571	\$1,758,590
Government incentives grant	—	9,500
	<u>\$2,492,571</u>	<u>\$1,768,090</u>

3. *Inventories*

	<u>1972</u>	<u>1971</u>
Raw materials	\$1,488,377	\$1,302,485
Work in process	439,141	313,632
Finished goods	1,187,140	1,292,201
	<u>\$3,114,658</u>	<u>\$2,908,318</u>

4. *Fixed assets*

Fixed assets and the related accumulated depreciation are classified as follows:

	<u>1972</u>			<u>1971</u>
	Cost and Appraised Value	Accumulated Depreciation	Net	Net
Land	\$ 102,718	\$ —	\$ 102,718	\$ 102,718
Buildings	2,779,429	648,440	2,130,989	2,157,729
Machinery and other equipment	3,719,251	2,010,821	1,708,430	1,712,344
Automotive equipment	167,418	78,701	88,717	83,134
	<u>\$6,768,816</u>	<u>\$2,737,962</u>	<u>\$4,030,854</u>	<u>\$4,055,925</u>

Fixed assets are shown as appraised by Canadian Appraisal Company Limited on the basis of depreciated replacement value as at December 31, 1954, plus subsequent additions at cost, less disposals. The appraisal increment is broken down as follows:

ENAMEL & HEATING PRODUCTS, LIMITED

AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1972

	1972			1971
	Cost	Appraisal Increment	Total	Total
Land	\$ 64,215	\$ 38,503	\$ 102,718	\$ 102,718
Buildings	1,183,816	1,595,613	2,779,429	2,779,429
Machinery and other equipment	3,189,740	529,511	3,719,251	3,631,835
Automotive equipment	167,418	—	167,418	135,113
	<u>\$4,605,189</u>	<u>\$2,163,627</u>	<u>\$6,768,816</u>	<u>\$6,649,095</u>

During the year 1968, the Company entered into a capital assistance agreement whereby the Canadian Government financed the acquisition of plant machinery costing \$72,261. Of this, 50 per cent represents a reduction in the capital cost of the purchased machinery. The balance is to be repaid in five equal annual instalments. Title to the assets will pass to the Company on payment of the final instalment.

ENAMEL & HEATING PRODUCTS, LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1972

5. <i>Long-term debt</i>	<u>1972</u>	<u>1971</u>
4¾% Sinking Fund Debentures, Series A, maturing April 1, 1976 Authorized and issued \$1,250,000 less purchased for redemption	\$ 484,000	\$ 493,000
Sinking fund payments of \$49,500 are due April 1 in each of the years 1973 to 1975		
6% Sinking Fund Debentures, Series B, maturing September 1, 1984 Authorized and issued \$1,250,000 less purchased for redemption	1,172,000	1,225,000
Sinking fund payments of \$50,000 are due September 1 in each of the years 1973 to 1977 and of \$100,000 in each of the years 1978 to 1983		
6% promisory note, payable in annual instalments of \$10,000	—	10,000
Government of Canada — capital assistance agreement, payable in annual instalments of \$7,082	14,740	21,822
	1,670,740	1,749,822
Less: current portion	104,582	77,226
	\$1,566,158	\$1,672,596

Sinking fund requirements and debt maturities during the next five years are as follows:

1973 — \$99,500; 1974 — \$99,500; 1975 — \$99,500; 1976 — \$385,500;
1977 — \$50,000.

ENAMEL & HEATING PRODUCTS, LIMITED

AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1972

6. *Income Taxes*

The company has claimed capital cost allowance to date which exceeds depreciation recorded in the accounts by \$383,207. Substantially offsetting this, the company has tax losses carried forward in the amount of \$149,473 together with a tax paid provision for doubtful accounts of \$180,000.

These items have not been reflected in the financial statements.

7. *Statutory Information*

Depreciation recorded in the accounts for the year was \$157,346 (1971 - \$154,735).

Parent Company

The board of directors consisted of eight members. Their aggregate remuneration as directors was \$500.

The board appointed three officers to serve during the year. Their aggregate remuneration was \$50,100.

Two persons who served as officers also served as directors.

Subsidiary Company

The board of directors consisted of four members. No remuneration was paid to any member as a director.

The board appointed four officers to serve during the year. Their aggregate remuneration was \$61,658.

The four persons who served as officers formed the board of directors.

8. Airco Products Ltd. has outstanding lease obligations expiring in 1985 requiring annual payments of \$69,440 before taxes.

ENAMEL & HEATING PRODUCTS, LIMITED

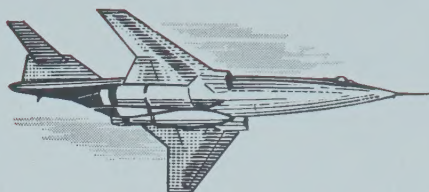
CONSOLIDATED FINANCIAL REVIEW

	1972	1971	1970	1969	1968	1967	1966	1965
Sales	\$11,738,563	\$11,078,016	\$9,660,043	\$10,914,473	\$9,656,806	\$9,616,527	\$10,650,486	\$11,072,204
Net Income (Loss) before depreciation and taxes	318,148	747,952	(173,400)	(434,013)	383,350	(286,889)	365,666	431,894
Depreciation charged	157,662	154,735	177,536	170,277	141,771	115,596	120,778	119,373
Income Taxes	54,055	15,161	1,970	(240,773)	101,661	(204,926)	121,028	156,221
Net Income (Loss) for the year	106,431	578,056	(352,906)	(363,517)	139,918	(197,559)	123,860	156,300
Earnings (Loss) per share								
Class "A"56	2.16	(1.20)	(1.23)	.67	(.67)	.62	.73
Class "B"06	1.66	(1.20)	(1.23)	.17	(.67)	.12	.23
Dividends declared								
Class "A"	44,208	—	17,700	53,100	41,595	88,500	88,500	88,500
Class "B"	—	—	—	—	—	—	—	—
Capital Expenditure	144,247	47,438	130,984	422,933	400,452	266,598	212,493	318,721
Allowance for doubtful accounts	180,000	200,000	300,000	127,497	20,626	86,162	65,110	52,193
Allowance for obsolete inventory	54,836	69,836	70,000	—	—	—	—	—
Working Capital	1,741,566	1,688,149	1,088,011	1,436,257	2,391,158	2,541,444	3,215,696	3,382,457
Short Term Tax Benefits	329,473	473,903	922,596	753,287	265,572	290,943	—	—
Cash Throwoff	310,432	784,715	(136,667)	(445,218)	375,545	(276,625)	323,461	429,644
Ratios								
Working Capital	1.45	1.56	1.33	1.28	1.70	1.84	1.91	2.08
Inventory turnover	3.39	3.58	3.38	3.50	2.91	3.08	3.00	3.34
Accounts receivable turnover	5.5	5.8	3.7	3.9	3.9	3.4	3.4	3.5

PRODUCTS OF YOUR COMPANY

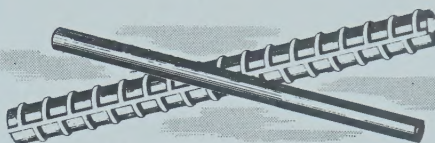
AIRCRAFT

Advanced facilities for the manufacture of components and the maintenance of aircraft for National Defence.



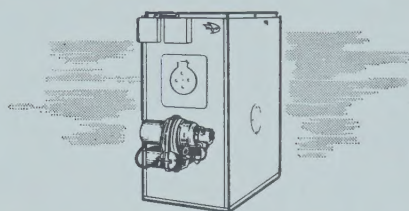
CONSTRUCTION

The fabrication of concrete reinforcing steel, to custom specifications, for immediate delivery.



HEATING UNITS

Oil, gas, electric and solid fuel furnaces and heaters for home and business, engineered for top efficiency with utmost economy.



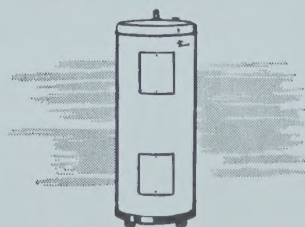
COOKING APPLIANCES

Electric, gas, oil and solid fuel ranges . . . known and preferred by generations of Canadian women.



WATER HEATERS

Electric or oil-fired glass lined water heaters provide a constant supply of crystal-clear hot water.



FAWCETT . . . growing with Canada . . . anticipating the needs and desires of the people . . . establishing the standards of quality . . . serving the homes and industries of the Nation for more than a century.



FAWCETT INDUSTRIES